

Approved April 25, 1990
Date

MINUTES OF THE HOUSE COMMITTEE ON LOCAL GOVERNMENT

The meeting was called to order by REPRESENTATIVE ROBERT. D. MILLER at
Chairperson

3:15 a.m./p.m. on MARCH 19, 1990 in room 521-S of the Capitol.

All members were present except:

Representative McClure, excused
Representative Turnbaugh, excused

Committee staff present:

Mike Heim, Legislative Research Dept.
Theresa Kiernan, Revisor of Statutes
Connie Smith, Committee Secretary

Conferees appearing before the committee:

Senator Don Montgomery
Norman D. Wilks, Kansas Association of School Boards
Barbara Butts, Department of Administration
James White, Superintendent of Schools, Oskaloosa

Chairman Miller called for hearing on SB 727 and informed the Committee that due to the lack of time, we would hear from the conferees and ask questions if time allows.

SB 727 - Act concerning municipalities; relating to lease-purchase agreements.

Chairman Miller recognized Senator Montgomery who gave a brief summary of SB 727. Senator Montgomery stated SB 727 was recommended to the Senate Local Government Committee by a subcommittee assigned to study the bill recommended by an interim study in the summer-fall of 1988, dealing with lease-purchases. The Department of Administration made available the latest compilation of municipal lease-purchase information. This summary shows how many lease-purchases there are, rate of interest being charged, and what they are primarily being used for. Senator Montgomery suggested that this report be made available to the Committee. Chairman Miller stated that when the bill is worked the information will be made available. The bill is drafted to be restrictive and give the people a chance to have a hearing and request a vote on the lease-purchase of land or buildings that the payments amount to over 3 percent of any amount budgeted in any one year. Senator Montgomery stated they specifically spelled out what should be in the lease-purchase agreement in section 3, page 2 of SB 727. The Committee was concerned about some of the leases that were being signed by municipalities that do not conform to the lease laws or the contract laws of Kansas. The term "any lease may not exceed 10 years" is still in the bill.

Chairman Miller recognized Norman D. Wilks, Kansas Association of School Boards, testified in support of SB 727 and provided written testimony. Mr. Wilks urged the Committee to pass the bill in its current form. (Attachment I)

Chairman Miller recognized Barbara Butts, Department of Administration, who provided written testimony and stated that her department did not have specific recommendations on what should be done legislatively with regard to the use of lease-purchase agreements. Ms Butts stated that since the Committee time was short, she would be happy to come back at some other time to answer questions. (Attachment II)

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON LOCAL GOVERNMENT,

room 521-S, Statehouse, at 3:15 a/m./p.m. on MARCH 19, 1990

Chairman Miller recognized James White, Superintendent of Schools, Oskaloosa who testified as an opponent to SB 727 and provided written testimony. (Attachment III)

The Chairman closed the hearing on SB 727.

Chairman Miller asked the conferees to be present when the Committee worked the bill to answer questions.

Representative Mollenkamp moved to approve the minutes of March 12, 13, 14, & 15; seconded by Representative Lane. Motion carried.

Meeting adjourned at 3:32 p.m.

 KANSAS
ASSOCIATION



 OF
SCHOOL
BOARDS

5401 S. W. 7th Avenue Topeka, Kansas 66606
913-273-3600

TESTIMONY ON SENATE BILL NO. 727
BEFORE THE HOUSE LOCAL GOVERNMENT COMMITTEE

By

NORMAN D. WILKS, LABOR RELATIONS SPECIALIST
Kansas Association of School Boards

March 19, 1990

Mr. Chairman and members of the committee, the Kansas Association of School Boards, which represents 303 of 304 Unified School District Boards of Education would like to express its support of S.B. 727.

Our Delegate Assembly adopted a legislative position that the lease purchase statutes should not be used to avoid a public vote on new building construction.

The change made in Section 3 of the bill will clear any conflict or misunderstanding between the school district leasing statute and lease purchase provisions in the cash basis law. We are therefore supportive of the bill because it provides the opportunity for a protest petition and election for acquisition of land or buildings.

We therefore urge the approval of the S.B. 727 as passed by the Senate.

LA
3-19-90
Attach. I

HOUSE LOCAL GOVERNMENT COMMITTEE

BARBARA BUTTS, TRAINING SUPERVISOR, MUNICIPAL ACCOUNTING SECTION

MARCH 19, 1990

On September 6, 1988, Bill Ervin, Chief of the Municipal Accounting Section, was a conferee at the Special Committee on Local Government hearing concerning lease-purchase authority for municipalities. In its summary report, the Committee recommended that we change the municipal budget forms to include a schedule for reporting lease-purchase agreements. We initiated this change to the budget forms that we distributed to the county clerks in mid-May 1989, see attachment.

We have gathered the lease-purchase information from the schedules included with budgets prepared last fall. Attached is a summary of the information we compiled. We did not verify/correct the data except where it appeared to be clearly erroneous. We can provide any details to support this summary that you may want to see.

Providing the financing for the lease-purchase payments has a major impact on tax levies, tax lids, and budgets of municipalities. These payments must be made from an operating fund, such as the General Fund, which is usually subject to the tax lid. There is no authority to make these payments from the bond and interest fund (which is exempt from the tax lid).

Lease-purchase agreements do not require voter approval as do most bond issues. Thus, some view lease-purchase agreements as loopholes because, while the long term obligations they create are similar to those of bond issues, the lease-purchase agreements can be used without voter approval.

We do not have specific recommendations on what should be done legislatively with regard to the use of lease-purchase agreements.

I would be happy to respond to questions from the Committee.

Attachments

LB
3-19-90
Attach. II

SUMMARY OF LEASE PURCHASE TRANSACTIONS

Equipment

Number of Transactions	Range of Contract Amounts	Interest Rate	Term	Total Contract Amount	Budgeted Payment
742	\$ 412- 99,999	3.3-20.4	8 mo-7 yrs	\$21,700,019	\$ 4,988,577
81	100,000-999,999	3.3-27.4	3-21 yrs	21,142,702	3,799,874
4	over \$1,000,000	6.24-8	5-7yrs	<u>8,681,238</u>	<u>1,353,431</u>
<u>827</u>	Total Equipment			<u>\$51,523,959</u>	<u>\$10,141,882</u>

Buildings

60	\$1,600-52,505,000	5.5-11.5	3-21 yrs	92,372,093	\$ 4,909,795
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Land

7	\$12,500-2,380,000	7.49-9.28	5-25 yrs	3,807,432	\$ 487,620
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Other

Certificate of Participation	4.75-7.875	239 mo	3,000,000		
2-Maintenance Contracts	10	5 yrs	30,144		
Water Purchase Rights		40 yrs	843,600		
Phone Project Data	6.37	6 yrs	651,749		
Energy Maintenance System		7 yrs	152,566		
TV Agreement		10 yrs	85,685		
Debt Refinancing	7.1-7.5	10 yrs	2,440,000		
Distribution System		40 yrs	<u>730,680</u>		
<u>9</u>	Total Other			<u>\$ 7,934,424</u>	<u>\$ 746,025</u>
<u>903</u>	Grand Total			<u>\$155,637,908</u>	<u>\$16,285,322</u>

Leases with Option to Buy

Kansas Statutes (72-8225) allows boards of education to lease real and personal property. Using the lease provisions for school buildings has evoked, in some quarters, a cry of foul. In some circles around the state, leasing buildings is seen as nothing more than an effort to circumvent a vote of the people. Little attention has been paid to the hundreds of thousands of dollars saved the taxpayer using the lease method of financing.

I submit to you that the lease-option to buy financing of a school building does no more to circumvent a vote of the people than providing funds through a capital outlay fund to build a building. Boards of education add approved resources year after year to the capital outlay fund and then decide after accumulating sufficient funds to build a new building, add classrooms or build a new gym. Has the board circumvented a vote of the people? Yes! Would the people vote to approve such an addition? Maybe, maybe not. Do the capital outlay funds provide the board the flexibility to make a decision based on the needs of the district? Yes. There are several significant reasons why leasing is a viable alternative for school district building financing. The term of the financing is limited to 10 years instead of the normal bond financing of 20 years. (Reducing interest costs significantly.) The time required to complete a building is substantially reduced. Normally the architect does not begin to prepare plans and bidding documents until the bond election is held and approved. This could take months, even years. Time could become a real issue, particularly if a district is experiencing overcrowding in existing buildings. The cost of financing (interest rates) may be reduced, again reducing costs to the taxpayer. In some situations, a board submits a bond proposal to the people and the people fail to approve the bond issue. Overcrowding still exists so the board purchases thousands of dollars worth of portable classroom units, and occasionally those units are leased! Normally those portable units are used for a period of time dictated, eventually, by the willingness of voters to approve a bond issue for construction of a permanent building.

This legislation would seem to reduce boards of education authority to operate the school district and expend the funds of the district through the budget process. Each board has a budget limit and a very strict legislatively approved procedure for developing the district budget each year. Boards of education then must decide how those budgets will be allocated for expenditure. Some districts may choose to reduce the pupil teacher ratio by adding more teachers, while another board may choose to buy band uniforms, and yet another district may need a building to reduce overcrowding. Historically, boards of education have been allowed to make those decisions based on the perceived needs of their district, but now members of the legislature, the Kansas Association of School Boards and others are seeking to limit the power, authority and flexibility of some boards of education to expend general fund resources. The old adage, "if it ain't broke, don't fix it," may apply here. Research will support the fact that boards are very conservative and prudent with the taxpayers money. I urge you not to make a hasty decision. Study the lease with option to buy over a period of years. You may find the current statute provides boards of education the necessary flexibility to meet the challenges of the population boom we are beginning to experience.

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3-19-90
Attach. III